



UNITED STATES SENATE
**REPUBLICAN
POLICY COMMITTEE**

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Deconstructing Daschle #2

**What Ate the Surplus? The Bad Economy
and Higher Spending – Not Tax Cuts**

On January 4, 2002, Senate Majority Leader Tom Daschle gave a speech characterized by his aides as a “New Growth Agenda for the American Economy.” This paper is the second in a series of several critiquing Senator Daschle’s remarks.

There are those who say the reason the surplus deteriorated so quickly is the attacks on America and the war against terrorism. Clearly September 11 was a blow to our economy. And to some industries, it's been devastating, especially travel and tourism, which is hugely important to my home state. But September 11 and the war aren't the only reasons the surplus is nearly gone. They're not even the biggest reasons. The biggest reason is the tax cut. In May, the Congressional Budget Office reported a 10-year budget surplus of \$5.6 trillion. By the end of the year, \$3.7 trillion was gone. Nearly half of that was a direct result of the tax cut. The tax cut was by far the largest factor.

– Senate Majority Leader Tom Daschle, January 4, 2002

On January 23, Congressional Budget Office Director Dan Crippen testified before the Senate Budget Committee to present the agency’s annual budget and economic outlook. He reported that the \$313 billion surplus projected last year for 2002 had disappeared, replaced by a \$21 billion deficit.

Did his analysis confirm Senator Daschle’s contention that the tax cuts were “by far the largest factor” in the deteriorating budget picture? Not even close. Instead, Crippen placed the blame where it belongs, first with the economy (\$148 billion), second with increased spending (\$44 billion). The tax relief package adopted by Congress last summer came in third (\$38 billion).

Revised 2002 CBO Surplus/Deficit Estimate (\$Billions)	Surplus/Deficit
January 2001 Surplus	313
Bush Tax Relief	38 (11%)
New Spending and Debt Service	53 (16%)
Economic and Technical	242 (73%)
Total Changes to the Surplus	333 (100%)
New Deficit Estimate	-21

The CBO's Analysis

According to the budget office director's testimony, tax relief caused just 11 percent of the total change from last year's surplus estimate. Meanwhile, economic and technical changes account for 73 percent of the difference. As Crippen stated:

The deficit projected for this year – \$21 billion – represents a change of more than \$300 billion from last January's project. Over 70 percent of that reduction results from the weak economy and related technical factors.

On the spending front, new discretionary spending added \$44 billion to the deficit – that is, more than did the tax cut. Other changes, including increased mandatory spending and increased debt service, added another \$9 billion to the deficit.

The Democrat Budget Would Have Been Worse

One conceit Senate Democrats have maintained over the past few months is had they prevailed with their budget and their policies last year, we would still have a surplus, or at the very least, the projected deficits would be much smaller. That's simply not true.

The alternative budget resolution offered by the Democrats included higher levels of spending and tax relief up front than the spending and tax relief actually adopted by Congress. Compared to last year's CBO baseline, it would have increased spending and reduced revenues by \$89 billion in 2002.

By contrast, the CBO estimates that *all* the legislative changes made last year, *including the response to September 11*, reduced revenues and increased spending by \$91 billion, just \$2 billion more. Last year's Democrat budget would have used up all the resources Congress had available to cut taxes, increase spending on certain programs (like education), *and* fight the war on terrorism, without actually funding the war on terrorism.

It's The Economy. . .

The Bush tax cuts did not cause the projected deficit – the recession did. As Congress addresses the question of how to restore budget surpluses, it should focus on policies that help the economy and create jobs. On this subject, both Supply-Siders and Keynesians agree (one of the few areas on which they do agree) that tax relief helps shorten recessions. While Republicans are committed to do more to respond to the lagging economy, the tax cuts adopted last summer are helping the economy recover and helping restore budget surpluses. Arguing otherwise simply ignores the facts.